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OFFICE OF INTERNAL OVERSIGHT SERVICES
INTERNAL AUDIT DIVISION

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To: Mr. Rolf G. Knutsson, Executive Secretary
United Nations Compensation Commission

From: Esther Stern, Director
Internal Audit Division
Office of Internal Oversight Services (OIOS)

A handwritten signature in black ink, appearing to be 'ES', written over the name 'Esther Stern'.

Subject: OIOS audit no. AF2002/27/2/001 Processing of Category "F2" Claims

1. I am pleased to present the report on the audit of the first instalment of one of the "F2" category claims at the United Nations Compensation Commission (UNCC). The audit was conducted in August 2001. The audit findings were initially communicated to UNCC as an Audit Observation (No. 803/01 dated 2 October 2001). UNCC management requested the former members of the "F2" Panel of Commissioners (Panel) to provide their comments on the audit recommendations and forwarded their comments in a letter dated 07 December 2001. Their comments have been incorporated as appropriate in the memorandum by the use of italics.

2. The first instalment of "F2" category claims involved the review of twenty claims submitted by the Government of the Hashemite Kingdom of Jordan with an asserted value of \$6,602,363,972. The Governing Council (GC) approved an amount \$72,205,599. The sum approved includes an amount of \$69,854,354 for emergency humanitarian relief provided by Jordan to the evacuees from Kuwait and Iraq.

2. We reviewed the "alternative methodology" developed by UNCC to estimate the total cost incurred to provide humanitarian assistance by the Government of Jordan. In our opinion, the approach adopted for the "alternative methodology" is transparent, fair and objective. However, our test check revealed deficiencies in applying the methodology to estimate the camp preparation and health services costs, which had resulted in substantial over-valuation of Jordan's costs. OIOS therefore recommended that UNCC should review their calculations to ensure that there was no over-compensation. Our detailed observations and recommendations are discussed below.

Camp Preparation costs

3. UNCC estimated that, cost estimates contained in UNICEF and UNHCR documents, Jordan incurred camp preparation costs of \$58.9 million. We noted the following deficiencies in this calculation:

- UNCC had estimated a camp capacity of 330,000 persons, however according to UNDRO and WHO reports, the maximum number of evacuees present at the camps at any point in time was approximately 100,000. Hence, the camp capacity used in UNCC's calculation is three times the actual capacity. UNCC was unable to provide an adequate explanation for this difference.
- UNICEF documents only referred to UNICEF share of responsibility hence, deriving camp preparation costs from these documents did not reflect the true costs to Jordan.
- In our view, UNCC did not consider the nature of costs and treated fixed and variable costs in the same manner. Since fixed costs are one-time costs they should not have been prorated for the total number of evacuees which resulted in over-estimation of costs by approximately \$30 million.

Health Services costs

5. UNCC calculated that Jordan incurred \$18.6 million for health service costs which was derived from the costs provided in a WHO report dated 23 October 1990. We found the following deficiencies in this calculation:

- WHO had itself estimated that Jordan incurred \$3.9 million only during a similar period. The substantial difference resulted from the treatment of the capital costs.
- UNCC had estimated capital costs of \$15.3 million by applying the capital cost per person to the total number of evacuees. However, according to the WHO report this should have been only \$2.1 million. Hence, there was an overestimation of capital costs by approximately \$13.2 million.

6. OIOS recommended in its observation that (i) UNCC provide justification for the valuation of camp preparation and health services costs as estimated and (ii) if appropriate justification could not be provided, conduct a fresh evaluation of the cost and submit the results to the "F2" Panel for their review.

7. *In response to the audit observation, UNCC informed us that they had forwarded it to the Panel. The Panel in their response, stated that "OIOS has misunderstood the approach used by the "F2" Panel in its first report, and has failed to appreciate the factors that led the Panel to the recommendation in question.The Panel considered the various matters raised in the OIOS report... and determined that that an allocation of costs between capital and revenue or between fixed and variable was inappropriate in the circumstances of the Jordan's emergency humanitarian assistance. Such an allocation could not be substantiated given the temporary and extraordinary nature of the total costs incurred."*

8. *The Panel also stated that on the "reasonableness check the amount finally recommended works out to approximately USD 19 per day per evacuee for the provisions of food, shelter, basic medical health, security. This figure is, in our opinion, both equitable and reasonable."*

9. However, we noted that the \$19 per day per evacuee did not take into consideration the assistance rendered by all other parties. According to UNCC, cost would have been over \$38 per day per evacuee had this been taken into consideration. Furthermore, in OIOS opinion, neither UNCC or the Panel adequately clarified the specific reasons for deviating

from cost accounting principles, and documentation to support their contention was not provided.

We recommend that the UNCC Secretariat inform the Governing Council of OIOS' findings and recommendations concerning the "F2" first instalment claim to Jordan for their appropriate action (AF2002/27/2/001).